



1st quarter 2008

# Tennessee Housing Market

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This is the third in a series of quarterly reports on the housing market in Tennessee, supported by a Tennessee Housing Development Agency grant.

## Economic Overview

Economic growth stumbled in the first quarter as evidenced by rising unemployment, mounting job losses in manufacturing, a deteriorating budget outlook for state government, and plunging housing construction (Tables 1 and 2). Perhaps the most telling indicator is the loss of pay-roll jobs: nonfarm employment dipped 0.23 percent in the first quarter,<sup>1</sup> the largest decline since 2003. Eighteen states posted job losses in the first quarter, with Tennessee showing the sixth largest percentage decline.

Manufacturing job losses are the single largest factor weighing on total job growth, down 0.8 percent from the fourth quarter. Other sectors such as financial activities and professional and business services also declined, but modestly. Employment in several industries, including leisure and hospitality, health care and social services, and natural resources, mining, and construction, continues to improve.

As in a number of states, government revenue collections are expected to fall short of budgeted revenues during the present fiscal year (FY2008) and well short for the coming fiscal year (FY2009). Revenue growth was down sharply in the first quarter of 2008, and collections for April were particularly poor. The governor has proposed spending cuts of \$468.1 million for FY2009, including a voluntary job buy-out targeted at 2,000 state workers.<sup>2</sup> Large balances in the state's rainy-day funds remain intact.

**Table 1. Selected Tennessee employment and unemployment (seasonally adjusted)**

	2007.1	2007.4	2008.1
<b>Nonfarm employment (thousands)</b>			
<b>Total</b>	<b>2,791.9</b>	<b>2,802.8</b>	<b>2,796.4</b>
<b>Goods-producing sectors</b>	<b>524.9</b>	<b>515.8</b>	<b>512.5</b>
<b>Manufacturing</b>	<b>388.8</b>	<b>376.8</b>	<b>373.8</b>
<b>Services-providing sectors</b>	<b>2,267.0</b>	<b>2,287.0</b>	<b>2,283.9</b>
<b>Unemployment rate (percent)</b>	<b>4.5</b>	<b>5.0</b>	<b>5.3</b>

Source: Bureau of Labor Statistics

## Housing Construction

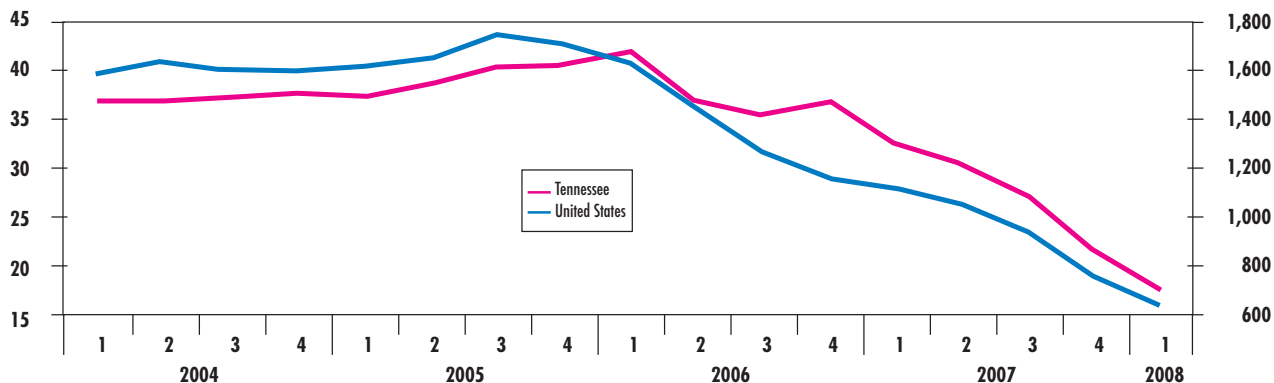
Single-family home permits tumbled in the first quarter to 17,800 units, an 18.5 percent decline from the fourth quarter (Table 2). By comparison, the South experienced a 9.7 percent decline, while the U.S. dropped 14.6 percent (Table 2). Primary reasons for the decline continue to focus on declining demand, cutbacks in the supply of credit, and weak prices for housing, causing builders to curtail plans for new housing developments and homes and at the same time causing buyers to put off purchasing in anticipation of lower prices in the future. Buyers could remain on the sidelines until they perceive home prices are on the rise.

The trend shows that the bottom for new single-family homes is not yet in sight, as the number of permits continues to drop at an annualized rate of 3,800 per quarter (Figure 1). The National Association of Home Builders (NAHB) predicts the bottom will not be reached until the fourth quarter

**Table 2. Permits issued for privately owned housing, seasonally adjusted annual rate (thousands)**

Quarter	Single-Family Units			Total Units		
	Tennessee	South	U.S.	Tennessee	South	U.S.
2006.3	35.7	676.0	1,273.0	43.5	869.0	1,719.7
2006.4	36.9	629.0	1,167.7	41.5	809.7	1,571.7
2007.1	32.7	578.0	1,119.0	39.8	755.7	1,558.7
2007.2	30.5	531.3	1,052.3	36.4	728.3	1,463.3
2007.3	27.3	478.7	939.7	34.0	642.3	1,324.0
2007.4	21.9	389.3	760.3	31.3	556.7	1,137.3
2008.1	17.8	351.7	649.3	23.5	514.3	991.0
Change from previous quarter	-18.5%	-9.7%	-14.6%	-25.0%	-7.6%	-12.9%
Change from previous year	-45.6%	-39.2%	-42.0%	-40.9%	-31.9%	-36.4%

Source: Census Bureau

**Figure 1. Trend of single-family permits (thousands), Tennessee and U.S. (seasonally adjusted annual rate)**

of 2008, with modest increases thereafter for Tennessee. With the exception of Florida, the NAHB predicts housing construction in the South and the Northeast to begin to improve sooner than the rest of the nation.

### Home Sales and Prices

The Office of Federal Housing Enterprise Oversight (OFHEO) repeat-sales home price index shows modest appreciation in the fourth quarter for Tennessee, up 0.56 percent from the third quarter. The OFHEO repeat-sales index tracks conforming mortgages for single-family homes purchased by Fannie Mae or Freddie Mac. Jumbo loans for more than \$417,000 are not included in the index, since these loans are not purchased by Fannie Mae or Freddie Mac. The effect of excluding these large mortgages likely causes the index to overstate housing-price strength, as prices of homes covered by jumbo loans have been hit particularly hard by the housing market downturn.

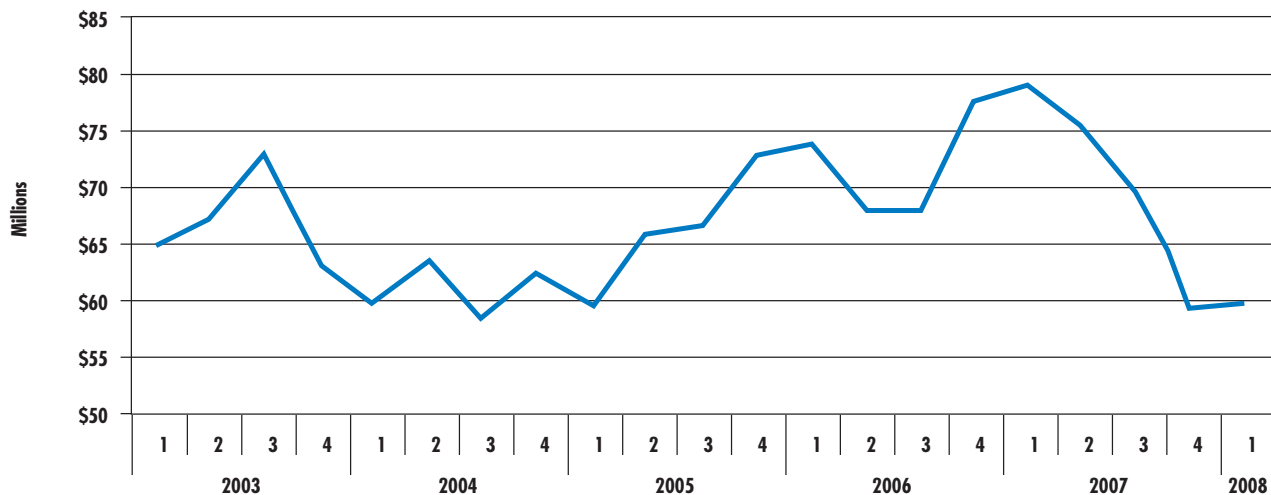
Nevertheless, the index provides a reasonable comparative measure of home-price strength. Tennessee's fourth-quarter price growth is lower than the Southern median of 0.72 percent but outperforms the U.S. figure of 0.09 percent.

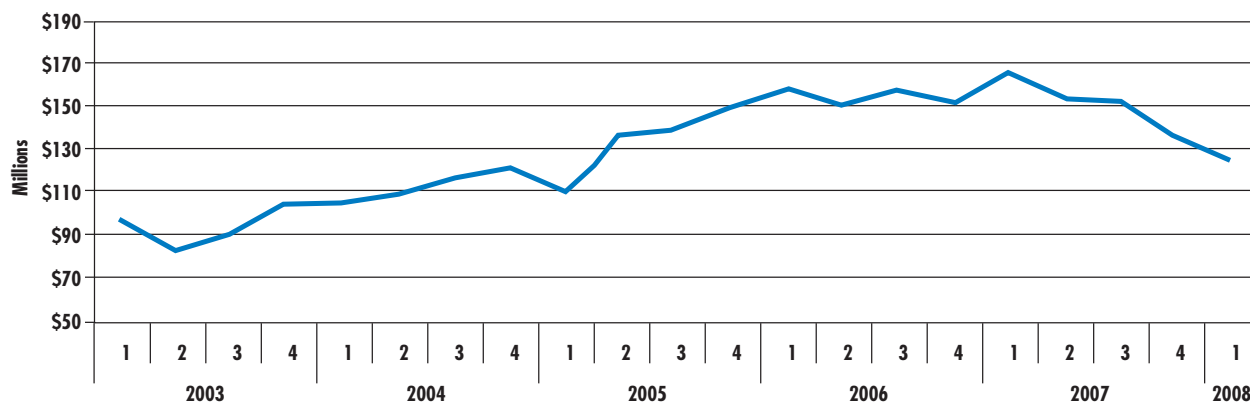
### Real Estate Transactions and Mortgages

Real estate transfer tax collections continued to fall in the first quarter, down 7.9 percent from the fourth quarter. Transfer tax collections have dropped 25.0 percent since peaking in the first quarter of 2007, indicating a large decline in the value of real estate transactions (Figure 3).

Mortgage tax collections, on the other hand, show a modest 0.8 percent gain after three straight declining quarters (Figure 2). Increased mortgage activity might be attributed to refinancing activity spurred by somewhat lower mortgage rates.

The single-family home market improved marginally in the Memphis and Nashville areas in the first quarter, with in-

**Figure 2. Mortgage tax collections (seasonally adjusted annual rate)**

**Figure 3. Real estate transfer tax collections (seasonally adjusted annual rate)**

ventories flat to slightly down and closings up slightly from the fourth quarter (Figure 4). Single-family sales in the Nashville area nearly stabilized following several quarters of declines, and the inventory of homes on the market rose only slightly, just 0.2 percent. Demand continues to weaken in the Knoxville area, with closings down 5.8 percent but inventories flat. In all three areas, the modest improvement in inventories could be attributed to continuing declines in the supply of new housing.

#### Mortgage Delinquencies and Foreclosures

Mortgages delinquencies and foreclosures turned sharply negative in the fourth quarter for both Tennessee and the United States, with Tennessee experiencing a somewhat smaller decline (Table 3). Particularly troubling is the increase in new foreclosures started, jumping from 0.68 as a percent of all mortgages to 0.77 in the fourth quarter for Tennessee and rising from 0.78 to 0.88 for the United States. A growing number of new foreclosures means the inventory of

foreclosures will probably rise, increasing the downward pressure on housing prices.

#### Conclusion

Housing construction continues to decline in Tennessee with no bottom yet in sight. Higher unemployment spurred by manufacturing job losses may spill over to other sectors such as retailing, putting additional downward pressure on the demand for housing, particularly in rural areas where manufacturing tends to dominate as a source of jobs. Mortgage delinquencies and foreclosures are on the rise, putting more pressure on prices. Sales improved in the Nashville and Memphis areas, and inventories are nearly level. The housing market is not likely to show overall improvement before the fourth quarter of 2008. ■

1. All quarter-to-quarter growth rates in this report are computed using seasonally adjusted data.

2. *Bredesen Outlines Budget: "Taxpayers expect us to live within our means,"* press release, governor's communication office, May 12, 2008.

**Table 3. Mortgages past due, new foreclosures started, and foreclosure inventory (% of mortgages serviced)**

Quarter	Tennessee			U.S.		
	Mortgages past due	Foreclosures started during quarter	Foreclosure inventory at end of quarter	Mortgages past due	Foreclosures started during quarter	Foreclosure inventory at end of quarter
2006.4	7.29	0.66	1.29	5.31	0.57	1.19
2007.1	5.86	0.60	1.25	4.33	0.59	1.28
2007.2	6.64	0.57	1.17	5.06	0.59	1.40
2007.3	7.63	0.68	1.28	5.81	0.78	1.69
2007.4	8.01	0.77	1.41	6.31	0.88	2.04

Source: Mortgage Bankers Association of America

Figure 4. Single-family sales and inventory (seasonally adjusted quarterly average of monthly figures)

